

Finland-IFC Blended Finance for Climate



Mobilizing private sector capital to reduce greenhouse gas emissions, and maximize financing for development



Blending concessional finance to offset risks and other barriers to private sector investments in climate-friendly projects



Demonstrating the business case for pioneering investments and creating markets for low-carbon and climate change mitigation and adaptation solutions

The world has set ambitious targets for tackling climate change. It will require the joint efforts of governments, multi-lateral development banks, the private sector, non-governmental organizations, and civil society to meet them. The financing required for transition to a low-carbon, resilient global economy is counted in trillions—not billions. This opens opportunities for scaling climate-smart investments to support low-carbon energy, transportation, and agribusiness in developing economies. The private sector has a critical role to play in filling the climate finance gap. Finland and IFC—a member of the World Bank Group, and the largest global development institution focused on the private sector in emerging markets—have developed the **Finland-IFC Blended Finance for Climate Program** to spur private sector financing for climate change solutions, especially in low-income countries.

Finland will co-invest €114 million alongside IFC in climate change mitigation and adaptation projects. This partnership will help IFC to move ahead with innovative, early-stage climate projects and help Finland to achieve its climate change commitments.

How does it work?

Over a five-year investment period, funds from the program will be used as co-investments in the form of concessional finance together with IFC's commercial investments to support private sector projects with high development impact potential—when fully commercial solutions are not yet possible because the risks are considered too high, or the returns are either unproven or not commensurate with the level of risk.



Blended Concessional Finance Principles

1. **Additionality & Rationale for Blended Concessional Finance**

Contribution that is beyond what is available, otherwise absent from the market

2. **Crowding-in and Minimum Concessionalality**

Contribute to catalyzing market development and mobilization of private sector resources, with concessionality not greater than necessary

3. **Commercial Sustainability**

Impact achieved by each operation should aim to be sustainable and contribute towards commercial viability

4. **Reinforcing Markets**

Addresses market failures effectively and efficiently and minimizes the risk of market distortion or crowding out private finance

5. **Promoting High Standards**

Promote adherence to high standards, including in the areas of corporate governance, environmental impact, integrity, transparency, and disclosure

Sectors of Focus

- **Climate Change Mitigation:** Renewable energy; energy efficiency in buildings; agriculture, forestry and land-use; water and wastewater; transport
- **Climate Change Adaptation:** meteorology; water and sanitation; food security; sustainable forestry.

Countries of Focus

The program focuses on supporting projects in the least developed countries, other low-income countries, and lower-middle income countries and territories. The geographic scope is defined by the Development Assistance Committee of the Organization of Economic Co-operation and Development, which maintains a list of recipients of official development assistance (ODA), and parties to the United Nations Framework Convention on Climate Change.

Eligible Instruments

- Debt (senior and subordinated)
- Guarantees
- Equity

Blended Concessional Finance— Helping Overcome Market Barriers

In most of the countries that are the focus of this program, investment opportunities for low-carbon development face both significant barriers and uncertain returns. Barriers can range from macro-economic challenges and business environment risks to lack of market knowledge and capacity of project developers. Similarly, returns can crystallize over a longer term and, in many cases, the level of financial returns are not commensurate to the level of risk borne by the project developer or sponsor.

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Well-structured blended concessional finance solutions can help overcome some of these barriers. It can help catalyze private sector investment in potentially high-impact projects that are on the threshold of commercial viability but need some concessional finance to de-risk or help rebalance the risk-reward profile to attract private sector investors.

The Finland-IFC Blended Finance for Climate Program

can play a crucial role in mobilizing private sector financing to address climate change mitigation and adaptation by supporting projects that:

- Would not happen otherwise because of perceived or real risks
- Can demonstrate commercial viability and thus catalyze other private sector investments
- Help fill the climate finance gap in emerging markets and crowd-in new sources of private sector finance for development impact.

The role of Finland and IFC

Finland is IFC's first bilateral European partner in blended finance for climate using ODA resources in an innovative manner to allow for reflows instead of traditional grant-based contributions.

The program presents business opportunities for private sector companies, financial institutions, and institutional investors to collaborate on climate change and finance climate innovations.

For more than six decades, IFC has been a leader in private sector development—working with multinational, regional, and local companies to accelerate growth and lift people out of poverty while promoting global competitiveness and standards for client companies.

